

**CAPITOL GREEN HOUSING CORPORATION  
DOVER, DELAWARE**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2007 AND 2006**

# CAPITOL GREEN HOUSING CORPORATION

## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 11
SUPPLEMENTAL INFORMATION:	
Additional Data Required by Delaware State Housing Authority	12 - 13
Computation of Surplus Cash and Distributions	14
Audit Internal Control Checklist	15 - 18
Comparison of Budget vs. Actual Schedule	19
Management Agent's Certification	20
ADDITIONAL REPORTS:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	23 - 24
Summary of Auditors' Results	25
Schedule of Findings and Recommendations	26 - 27
Schedule of Expenditures of Federal Awards	28

Dover, Delaware  
800.355.8210

Media, Pennsylvania  
610.565.5222

## INDEPENDENT AUDITORS' REPORT

202 Bancroft Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940

FAX: 302.478.0133  
www.btcpa.com  
info@btcpa.com

September 18, 2007

The Ingerman Group and the Delaware State Housing Authority  
Capitol Green Housing Corporation  
Dover, Delaware

We have audited the accompanying statements of financial position of Capitol Green Housing Corporation (a nonprofit organization) as of June 30, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Capitol Green Housing Corporation as of June 30, 2007 and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2007 on our consideration of Capitol Green Housing Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 12 - 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barbacane Thornton & Company*  
BARBACANE, THORNTON & COMPANY

CAPITOL GREEN HOUSING CORPORATION  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006

<u>ASSETS</u>		<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>			
1120	Cash	\$ -	\$ 24,860
1135	Accounts Receivable (net of \$12,382 and \$15,489 for uncollectible accounts in 2007 and 2006, respectively)	19,165	20,316
1211	Prepaid Expenses	<u>20,915</u>	<u>266</u>
	Total Current Assets	<u>40,080</u>	<u>45,442</u>
1400	Fixed Assets	3,706,685	3,706,685
1495	Accumulated Depreciation	<u>(3,357,881)</u>	<u>(3,319,061)</u>
		<u>348,804</u>	<u>387,624</u>
<b>OTHER ASSETS</b>			
1191	Tenant Security Deposits	21,199	24,845
1311	Insurance Reserve	-	17,465
1320	Reserve for Replacements	98,326	62,781
1340	Residual Receipts Reserve	314,347	344,066
1520	Deferred Origination Fee (net of amortization of \$61,671 and \$59,575 for 2007 and 2006, respectively)	<u>22,186</u>	<u>24,282</u>
	Total Other Assets	<u>456,058</u>	<u>473,439</u>
	<b>TOTAL ASSETS</b>	<u>\$ 844,942</u>	<u>\$ 906,505</u>
<u>LIABILITIES AND NET ASSETS</u>			
<b>CURRENT LIABILITIES</b>			
2105	Bank Overdraft	\$ 3,652	\$ -
2110	Accounts Payable	67,770	46,967
2131	Interest Payable	14,135	14,985
2170	Current Maturities of Long-Term Liabilities	139,043	128,463
2210	Deferred Revenue	<u>2,763</u>	<u>25,669</u>
	Total Current Liabilities	<u>227,363</u>	<u>216,084</u>
<b>LONG-TERM LIABILITIES</b>			
2191	Tenant Security Deposits Payable	17,969	26,228
2129	Note Payable	561,435	561,435
2320	Mortgage Payable, Less Current Maturities	<u>1,997,279</u>	<u>2,136,322</u>
	Total Long-Term Liabilities	<u>2,576,683</u>	<u>2,723,985</u>
	<b>TOTAL LIABILITIES</b>	2,804,046	2,940,069
4100	Net Deficit - Unrestricted	<u>(1,959,104)</u>	<u>(2,033,564)</u>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 844,942</u>	<u>\$ 906,505</u>

The accompanying notes are an integral part of these financial statements.

CAPITOL GREEN HOUSING CORPORATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
POTENTIAL RENT REVENUE:		
5120 Rent Revenue	\$ 491,947	\$ 389,193
5121 Tenant Assistance Payments	<u>599,321</u>	<u>706,055</u>
Total Potential Rent Revenue	1,091,268	1,095,248
5220 Vacancies	<u>(203,187)</u>	<u>(51,564)</u>
	<u>888,081</u>	<u>1,043,684</u>
FINANCIAL REVENUE:		
5410 Interest Income - Project Operations	951	674
5430 Residual Receipts	13,494	10,977
5440 Reserve for Replacement	<u>3,237</u>	<u>1,401</u>
Total Financial Revenue	<u>17,682</u>	<u>13,052</u>
OTHER REVENUE:		
5920 Tenant Charges	796	747
5990 Miscellaneous Revenue	<u>71,269</u>	<u>52,685</u>
Total Other Revenue	<u>72,065</u>	<u>53,432</u>
 TOTAL REVENUE	 <u>977,828</u>	 <u>1,110,168</u>
EXPENSES		
ADMINISTRATIVE EXPENSES:		
6210 Advertising	192	1,392
6320 Management Fees	60,536	72,471
6340 Legal Expense	1,950	15,685
6350 Audit Expense	8,000	7,225
6360 Telephone and Answering Service	7,459	6,322
6370 Bad Debts	30,868	30,570
6390 Miscellaneous	<u>-</u>	<u>27,326</u>
Total Administrative Expenses	<u>109,005</u>	<u>160,991</u>
UTILITIES EXPENSES:		
6450 Electricity	104,345	95,640
6451 Water	64,586	72,827
6452 Gas	<u>171,081</u>	<u>190,799</u>
Total Utilities Expenses	<u>340,012</u>	<u>359,266</u>
OPERATING AND MAINTENANCE EXPENSES:		
6510 Payroll	95,479	129,793
6519 Exterminating Payroll/Contract	1,345	7,640
6525 Garbage and Trash Removal	31,952	36,225
6541 Repairs - Material	6,263	25,452
6542 Repairs - Contract	14,322	11,949
6570 Other	368	362
6590 Miscellaneous	<u>28,257</u>	<u>24,542</u>
Total Operating and Maintenance Expenses	<u>177,986</u>	<u>235,963</u>

Continued on next page.

CAPITOL GREEN HOUSING CORPORATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
EXPENSES (cont'd)		
TAXES AND INSURANCE:		
6720 Property and Liability Insurance	29,329	88,179
6723 Health Insurance and Other Employment Benefits	<u>31,754</u>	<u>39,707</u>
Total Taxes and Insurance	<u>61,083</u>	<u>127,886</u>
6820 Interest on Mortgage Payable	<u>174,366</u>	<u>184,205</u>
6600 Depreciation Expense	<u>38,820</u>	<u>163,087</u>
6610 Amortization Expense	<u>2,096</u>	<u>2,096</u>
TOTAL EXPENSES	<u>903,368</u>	<u>1,233,494</u>
CHANGE IN NET ASSETS	74,460	(123,326)
NET DEFICIT, BEGINNING OF YEAR	<u>(2,033,564)</u>	<u>(1,910,238)</u>
NET DEFICIT, END OF YEAR	<u>\$(1,959,104)</u>	<u>\$(2,033,564)</u>

The accompanying notes are an integral part of these financial statements.

CAPITOL GREEN HOUSING CORPORATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rental receipts	\$ 289,911	\$ 340,846
Interest receipts	17,682	13,052
Housing assistance payments	576,415	731,724
Other receipts	<u>72,065</u>	<u>53,432</u>
	<u>956,073</u>	<u>1,139,054</u>
Administrative	(108,739)	(161,257)
Utilities	(340,012)	(359,266)
Operating and maintenance	(161,796)	(266,795)
Taxes and insurance	( 81,998)	(127,886)
Interest on mortgage	<u>(175,216)</u>	<u>(184,991)</u>
	<u>(867,761)</u>	<u>(1,100,195)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>88,312</u>	<u>38,859</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in escrow deposits	<u>11,639</u>	<u>42,891</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>11,639</u>	<u>42,891</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage principal payments	(128,463)	(118,689)
Increase in bank overdraft	3,652	-
Purchase of fixed assets	<u>-</u>	<u>(6,066)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(124,811)</u>	<u>(124,755)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,860)	(43,005)
CASH, BEGINNING OF YEAR	<u>24,860</u>	<u>67,865</u>
CASH, END OF YEAR	<u>\$ -</u>	<u>\$ 24,860</u>

Continued on next page.

CAPITOL GREEN HOUSING CORPORATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 74,460	\$ (123,326)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	38,820	163,087
Amortization expense	2,096	2,096
Decrease in accounts receivable	1,151	3,217
(Increase) in prepaid expenses	(20,649)	(266)
Decrease (Increase) in security deposit cash	3,646	(1,290)
Increase (Decrease) in accounts payable	20,803	(6,953)
(Decrease) in interest payable	(850)	(786)
(Decrease) in accrued payroll	-	(4,862)
(Decrease) in accrued vacation and sick pay	-	(20,400)
(Decrease) Increase in security deposit liability	(8,259)	2,673
(Decrease) Increase in deferred revenue	(22,906)	25,669
Total Adjustments	<u>13,852</u>	<u>162,185</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 88,312</u>	<u>\$ 38,859</u>
SUPPLEMENTAL DISCLOSURE:		
None		

The accompanying notes are an integral part of these financial statements.



## CAPITOL GREEN HOUSING CORPORATION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE A ORGANIZATION

Capitol Green Housing Corporation was formed as a nonprofit, nonstock corporation for the ownership of the Capitol Green apartment project in Dover, Delaware. This is a 144-unit Section 8 project and is governed by a regulatory agreement dated February 22, 1977 between Capitol Green Housing Corporation, the Federal Housing Commissioner and the Delaware State Housing Authority. The project is regulated by HUD as to rent charges and operating methods. Under the regulatory agreement, no distributions are allowed by the Corporation to the incorporators, and no compensation is allowed to the officers and members of the board of directors of the project. The project's major program is its Section 8 assistance program. Delaware State Housing Authority, a State agency, controls the corporation.

The Corporation's income is exempt under the provisions of Section 115 of the Internal Revenue Code.

#### NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Accounting

The Corporation prepares its financial statements on the accrual basis of accounting.

##### Fixed Assets

The Corporation follows the practice of capitalizing all expenditures for fixed assets in excess of \$15,000. Expenditures for maintenance, repairs, minor renewals and betterments which do not improve or extend the usual life of the respective asset are expensed. Effective July 1, 2005 and going forward, all expenditures for fixed assets in excess of \$1,000 were capitalized. Fixed assets are recorded at cost. The estimated useful lives are as follows:

Equipment	5 years
Land improvements	15 years
Buildings	27 years

##### Deferred Origination Fee

The initial costs of obtaining the federally insured mortgage have been capitalized and are being amortized over a 40-year period using the straight-line method.

##### Advertising Expenses

Advertising costs are expensed as they are incurred.

# CAPITOL GREEN HOUSING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Cash

The Corporation's cash is considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### NOTE C CASH

At June 30, 2007, the reported amount of the Corporation's deposits was \$0 and the bank balance was \$799. At June 30, 2006, the reported amount of the Corporation's deposits was \$24,860 and the bank balance was \$25,475. All of the balance was covered by federal depository insurance.

### NOTE D LONG-TERM DEBT

The mortgage note is payable to the Delaware State Housing Authority in monthly installments of \$25,307, including interest at 7.94 percent through February 1, 2018 and is collateralized by the rental property.

Principal payments on the mortgage are due as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 139,043
2009	150,494
2010	162,887
2011	171,549
2012	190,821
Thereafter	<u>1,321,528</u>
TOTAL	2,136,322
Less current portion	<u>139,043</u>
Long-term portion	<u>\$ 1,997,279</u>

# CAPITOL GREEN HOUSING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### NOTE D LONG-TERM DEBT (cont'd)

On May 3, 2004, the Corporation entered into a note payable agreement with the Delaware State Housing Authority in the amount of \$561,435. This note is noninterest bearing and may be forgiven by the Delaware State Housing Authority upon full satisfaction of the mortgage payable noted above. This note is collateralized by the rental property.

### NOTE E FIXED ASSETS

As of June 30, 2007 and 2006, fixed assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 224,500	\$ 224,500
Land improvements	242,879	242,879
Building	2,955,761	2,955,761
Equipment	283,545	283,545
Accumulated depreciation	<u>(3,357,881)</u>	<u>(3,319,061)</u>
TOTALS	<u>\$ 348,804</u>	<u>\$ 387,624</u>

### NOTE F ESCROW DEPOSITS

In accordance with the regulatory agreement dated January 19, 1978 between Capitol Green Housing Corporation and the Delaware State Housing Authority (DSHA), certain escrow accounts must be maintained with DSHA. The escrows consisted of the following:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Insurance	\$ -	\$ 17,465
Residual receipts	314,347	344,066
Replacement reserve	<u>98,326</u>	<u>62,781</u>
TOTAL	<u>\$ 412,673</u>	<u>\$ 424,312</u>

### NOTE G RENTAL ASSISTANCE

The Corporation entered into a contract for Section 8 Housing Assistance Payments with the U.S. Department of Housing and Urban Development (HUD) on February 22, 1977. Under the terms of this contract, HUD will disburse to the Corporation rental assistance payments on behalf of qualified tenants. The initial term of the contract is for five years with an option of seven additional terms at five years each. Under the regulatory agreement, the Corporation may not increase rents charged to tenants without HUD approval.

CAPITOL GREEN HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE H RELATED PARTY TRANSACTIONS

Capitol Green Housing Corporation is closely associated with, and related to, the Delaware State Housing Authority.

During the period from July 1, 1995 to September 19, 2005 the Corporation was obligated under an agreement with the Delaware State Housing Authority for the management of its housing projects. Management fees of \$0 and \$14,666 were paid to DSHA for the years ended June 30, 2007 and 2006 respectively. Starting September 19, 2005, the Corporation was obligated under an agreement with The Ingerman Group for the management of its housing projects. Management fees of \$60,536 and \$57,805 were paid to The Ingerman Group for the years ended June 30, 2007 and 2006, respectively.

The staff of The Ingerman Group performs all management and accounting functions for Capitol Green Housing Corporation. The general ledger of Capitol Green Housing Corporation is maintained and prepared by The Ingerman Group, using a computer system that also performs these functions for other housing corporations.

NOTE I CONCENTRATION OF REVENUE

Approximately 61 and 64 percent of Capitol Green Housing Corporation's combined revenues for the years ended June 30, 2007 and 2006, respectively, is provided from the U.S. Department of Housing and Urban Development passed through the Delaware State Housing Authority.

NOTE J DEFERRED ORIGINATION FEE

As of June 30, 2007 and 2006, the unamortized deferred origination fees amounted to \$22,186 and \$24,282, respectively. Amortization expense for each of the years ended June 30, 2007 and 2006 amounted to \$2,096.

Future amortization expense is as follows:

Year Ending June 30

2008	\$ 2,096
2009	2,096
2010	2,096
2011	2,096
2012	2,096
Thereafter	<u>11,706</u>
	<u>\$ 22,186</u>

CAPITOL GREEN HOUSING CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE K      SUBSEQUENT EVENT

The Delaware State Housing Authority signed a contract of sale with The Ingerman Group in 2005 which has subsequently been extended, and settlement is expected to occur in fiscal year 2008. The Ingerman Group has been awarded low-income housing tax credits and their application for financing from the Delaware State Housing Authority's Housing Development Fund has been reviewed and approved by the Council on Housing.

**SUPPLEMENTAL INFORMATION**

CAPITOL GREEN HOUSING CORPORATION  
SUPPLEMENTAL INFORMATION  
ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY  
JUNE 30, 2007

RESERVE FOR REPLACEMENTS

In accordance with the regulatory agreement dated February 22, 1977, a monthly payment is required to fund reserve for replacements. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 62,781
Interest Income	3,237
Monthly Deposits	32,308
DSHA Approved Disbursements	<u>-</u>
ENDING BALANCE CASH	<u>\$ 98,326</u>

RESIDUAL RECEIPTS RESERVE

The mortgagee, Delaware State Housing Authority, has periodically made deposits and disbursements to and from the reserve on behalf of the project. Transactions are as follows:

BEGINNING BALANCE	\$ 344,066
Interest Earned on Investment of Project Escrow Fund	13,494
DSHA Approved Disbursements	<u>( 43,213)</u>
ENDING BALANCE CASH	<u>\$ 314,347</u>

INSURANCE RECEIPTS

In accordance with the regulatory agreement dated February 22, 1977, a monthly payment is required to fund a reserve for insurance. This payment is made in cash and is on deposit with the Delaware State Housing Authority, the mortgagee. Transactions are as follows:

BEGINNING BALANCE	\$ 17,465
Monthly Deposits	26,400
DSHA Approved Disbursements	<u>(43,865)</u>
ENDING BALANCE CASH	<u>\$ -</u>

FIXED ASSETS

	Balance July 1, 2006	Additions (Deletions) During Year	Balance June 30, 2007
CHANGES IN PROPERTY AND EQUIPMENT:			
Land	\$ 224,500	\$ -	\$ 224,500
Land improvements	242,879	-	242,879
Building	2,955,761	-	2,955,761
Equipment	283,545	-	283,545
Accumulated depreciation	<u>(3,319,061)</u>	<u>(38,820)</u>	<u>(3,357,881)</u>
TOTALS	<u>\$ 387,624</u>	<u>\$ (38,820)</u>	<u>\$ 348,804</u>

CAPITOL GREEN HOUSING CORPORATION  
SUPPLEMENTAL INFORMATION  
ADDITIONAL DATA REQUIRED BY DELAWARE STATE HOUSING AUTHORITY  
JUNE 30, 2007

DELINQUENT TENANT ACCOUNTS RECEIVABLE

	<u>Amount Past Due</u>
Delinquent 0 - 30 days	\$ 8,370
Delinquent 31 - 60 days	5,504
Delinquent 61 - 90 days	5,291
Delinquent over 90 days	<u>12,382</u>
 TOTAL	 <u>\$ 31,547</u>

SUMMARIZED ACCOUNTS PAYABLE (TRADE CREDITORS)

Payable within 30 days	<u>\$ 67,770</u>
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LONG-TERM DEBT

The mortgage note payable to the Delaware State Housing Authority in monthly installments of \$25,307, including interest at 7.94 percent through February 1, 2018 and is collateralized by the rental property. The outstanding balance at June 30, 2007 is \$2,136,322.

On May 3, 2004, the Corporation entered into a note payable agreement with the Delaware State Housing Authority in the amount of \$561,435. This note is noninterest bearing and may be forgiven by the Delaware State Housing Authority upon full satisfaction of the mortgage payable noted above. This note is collateralized by the rental property.

ADDITIONAL INFORMATION REQUIRED

Barbacane, Thornton & Company, 202 Bancroft Building, 3411 Silverside Road, Wilmington, DE 19810

Pamela W. Baker, CPA, Partner (302) 478-8940



Delaware State Housing Authority  
COMPUTATION OF SURPLUS CASH AND DISTRIBUTIONS

Property Name	Fiscal Period Ending	DSHA/HDF Number	
Capitol Green Housing Corporation	June 30, 2007	DE26H004002	

\*\*\*\*\*

**PART A. - COMPUTE SURPLUS CASH**

Section I - Cash

1. Cash	\$	21,199	
2. Tenant Subsidy Vouchers due for Period Covered by Financial Statements	\$	-	
3. Other (Describe)	\$	-	
(A) Total Cash (Add Lines 1, 2, & 3)	\$		21,199

Section II. - Current Obligations

4. Accrued Mortgage Interest Payables	\$	14,135	
5. Delinquent Mortgage Principal Payments	\$	-	
6. Delinquent Deposits to Reserve for Replacements	\$	-	
7. Accounts Payables and Accrued Expenses(due within 30 days)	\$	67,770	
8. Loans and Notes Payables (due within 30 days)	\$	11,172	
9. Deficient Tax Insurance/Mortgage Insurance Escrow	\$	-	
10. Accrued Expenses (not escrowed)	\$	-	
11. Prepaid Rents	\$	-	
12. Tenant Security Deposits Liability	\$	17,969	
13. Other (Describe) Cash overdraft	\$	3,652	
(B) Total Liabilities	\$		114,698
(C) Surplus Cash (Deficiency)	\$		(93,499)
Line (A) Minus Line (B)			

\*\*\*\*\*

**PART B - COMPUTE OWNERS DISTRIBUTIONS & REQUIRED HDF LOAN BALANCE REDUCTION**

1. Surplus Cash	\$	-	
2. a. Beginning Balance: Accrued Distributions from Prior Year(s) Unpaid	\$	-	
Annual Distribution Earned During Fiscal Period Covered	\$	-	
Annual Distribution Paid During Audit Year Against Audit	\$	-	
Annual Distribution Paid During Audit Year Against Prior	\$	-	
b. Ending Balance: Distributions Unpaid From Audit Year and Prior Years(s) at Audit Year End (Amount Carried on Balance Sheet)	\$	-	
3. Amount available for distribution (the lesser of Line 1 or Line 2b)	\$	-	
4. Amount due DSHA to be applied to DSHA Permanent Loan or deposited in to residual receipts (Line 1 minus Line 3)	\$	-	

\*\*\*\*\*

Prepared By: \_\_\_\_\_  
Date

Reviewed By: \_\_\_\_\_  
Date

# **IX. AUDIT INTERNAL CONTROL/COMPLIANCE CHECKLIST**

Property Name	Fiscal Period Ending	DSHA/HDF Number
Capitol Green Housing Corporation	June 30, 2007	DE26H004002

Please answer the questions below. All answers should be based upon a review of procedures and/or actual test transactions. Any question answered "no" may indicate of an adverse condition which should be described in the audit report.

- |    |   |                   |
|----|---|-------------------|
|    |   | Yes, No<br>or N/A |
| 1. | <b><u>Mortgage Status</u></b>   |                   |
|    | A. Are payments on the mortgage(s) current?   | <u>Yes</u>        |
|    | B. Has the mortgagor/grantee complied with the terms and conditions of the mortgage, modification, Regulatory, forbearance and/or workout agreement?  | <u>Yes</u>        |
|    | C. If the workout agreement, Regulatory Agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period? | <u>N/A</u>        |
| 2. | <b><u>Books and Records</u></b>   |                   |
|    | A. Are a completed set of books and records maintained in a satisfactory manner?  | <u>Yes</u>        |
|    | B. Does the mortgagor/grantee make frequent postings (at least monthly) to the ledger accounts?   | <u>Yes</u>        |
| 3  | <b><u>Cash Activities</u></b>   |                   |
|    | A. Are the cash receipts deposited in an account in the name of the development/program?  | <u>Yes</u>        |
|    | B. Are all account balances fully federally insured?  | <u>Yes</u>        |
|    | C. Are security deposits kept in an account separate and apart from all other funds of the development?   | <u>Yes</u>        |
|    | D. Are security deposits kept in an interest bearing account and is the interest returned to the tenant or applied to a tenant balance?   | <u>Yes</u>        |
|    | E. Does the balance in the security deposit account equal or exceed the liability? Note: The liability difference should include the accrued interest payable.  | <u>Yes</u>        |

Yes, No  
or N/A

F. Does the owner and/or the management agent have a fidelity bond in an amount at least equal to potential collections for two months which provides coverage for all employees handling cash?

Yes

G. Did cash disbursements exclude payments for items listed below:

(1) Legal expenses incurred in the sale of partnership interest or in connection with permanent closing?

Yes

(2) The fee for the preparation of a partner's , shareholder's or individual's federal, state or local income tax returns?

Yes

(3) Expenses for advice to an owner on tax consequences of foreclosure?

Yes

(4) Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance or provisional workout arrangements?

Yes

(5) Were all disbursements from the operating account(s) made exclusively for operation or obligations of the development?

Yes

(6) Were letter of credit fees paid for out of operations or obligations of the development?

Yes

H. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of DSHA while the development was in a surplus cash position?

N/A

(1) Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a "surplus cash" position for distributions.

N/A

	Yes, No or N/A
I. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request for such deposit? (HUD Section 8/202/236 projects only)	<u>N/A</u>
J. Were excess rental collections in Section 236 developments remitted to HUD each month?	<u>N/A</u>
K. Does the mortgagor/grantee have a formal rent collection policy and is it posted?	<u>Yes</u>
L. Is the collection policy uniformly enforced?	<u>Yes</u>
M. Do tenants' accounts receivables consist exclusively of amounts due from those other than employees?	<u>Yes</u>
N. Is there a formal procedure to write-off bad debts?	<u>Yes</u>
O. Have write-offs of tenant's accounts been less than one percent of the gross rent?	<u>Yes</u>
P. Are accounts receivables other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	<u>N/A</u>
Q. Were there indications that payments for services, supplies or materials were substantially in excess of amounts normally paid for such services, etc?	<u>No</u>
R. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u>Yes</u>
S. Has the mortgagee made the required deposits to the mortgage escrow accounts as required by the loan documents?	<u>Yes</u>

Yes, No  
or N/A

4. **Management Compensation**

A. Was compensation to the management agent limited to the amounts prescribed in the Management Agreement?

Yes

B. Were development expenses paid in accordance with the management agreement (no expenses that management agent are required to pay charged to the development)?

Yes

5. **Rents and Occupancy**

A. On nonsubsidized tax credit developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent rent schedule?

N/A

B. On subsidized developments, are dwelling unit rents the same as those approved by DSHA/ HUD/RD on the most recent rent schedule?

Yes

6. **RD/HUD Subsidy Payments (Section 8/515 developments only)**

A. Were the amounts requested from DSHA/HUD/RD adequately supported by the accounting records?

N/A

B. Were subsidy receipts recorded in the proper accounts?

N/A

C. Utility allowance payments were paid to residents within five days of receipt from DSHA/HUD/RD and in an amount equal to the corresponding utility allowance subsidy amounts received?

N/A

CAPITOL GREEN HOUSING CORPORATION  
COMPARISON OF BUDGET TO ACTUAL SCHEDULE  
Year Ended June 30, 2007

	Budgeted Amounts Original and Final	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
Rent Revenue	\$ 487,922	\$ 491,947	\$ 4,025
Section 8 Rent	594,418	599,321	4,903
Vacancies	(288,600)	(203,187)	85,413
Interest Income	13,068	17,682	4,614
Other Income	-	71,269	71,269
Tenant charges	3,382	796	(2,586)
<b>Total revenues</b>	<u>810,190</u>	<u>977,828</u>	<u>167,638</u>
<b>EXPENSES</b>			
Advertising	3,000	192	(2,808)
Management Fees	55,692	60,536	4,844
Legal Expense	15,186	1,950	(13,236)
Audit Expense	7,600	8,000	400
Telephone and Answering Service	6,182	7,459	1,277
Bad Debts	4,965	30,868	25,903
Electricity	6,000	104,345	98,345
Water	42,655	64,586	21,931
Gas	6,000	171,081	165,081
Payroll	104,800	95,479	(9,321)
Exterminating	3,120	1,345	(1,775)
Garbage and Trash Removal	29,923	31,952	2,029
Repairs - Material	125	6,263	6,138
Repairs - Contract	7,070	14,322	7,252
Other	19,531	28,257	8,726
Miscellaneous	-	368	368
Property and Liability Insurance	25,020	29,329	4,309
Health Insurance and Other			
Employment Benefits	34,072	31,754	(2,318)
Interest on Mortgage Payable	-	174,366	174,366
Depreciation Expense	163,087	38,820	(124,267)
Amortization Expense	-	2,096	2,096
<b>Total expenses</b>	<u>534,028</u>	<u>903,368</u>	<u>369,340</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ 276,162</u>	<u>\$ 74,460</u>	<u>\$ (201,702)</u>

CAPITOL GREEN HOUSING CORPORATION

MANAGEMENT AGENT'S CERTIFICATION

We hereby certify that we have read the foregoing financial statements, additional information and supplemental data of Capitol Green Housing Corporation and, to the best of our knowledge and belief, they are accurate and complete.

  
Ingerman Management Company, Inc.  
EIN 32-0045712

9/28/07  
Date

**ADDITIONAL REPORTS**



Dover, Delaware  
800.355.8210

Media, Pennsylvania  
610.565.5222

INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENTAL  
AUDITING STANDARDS

202 Bancroft Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940

FAX: 302.478.0133  
www.btcpa.com  
info@btcpa.com

September 18, 2007

The Ingerman Group and the Delaware State Housing Authority  
Capitol Green Housing Corporation  
Dover, Delaware

We have audited the financial statements of Capitol Green Housing Corporation as of and for the year ended June 30, 2007 and have issued our report thereon dated September 18, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Capitol Green Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Capitol Green Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Capitol Green Housing Corporation's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Capitol Green Housing Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Capitol Green Housing Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Capitol Green Housing Corporation's internal control. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items #07-1 and #07-2 to be significant deficiencies in internal control over financial reporting.

The Ingerman Group and the Delaware State Housing Authority  
Capitol Green Housing Corporation  
Dover, Delaware

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Capitol Green Housing Corporation's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item #07-1 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capitol Green Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Capitol Green Housing Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit Capitol Green Housing Corporation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the U.S. Department of Housing and Urban Development, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, and Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.

*Barbacane Thornton & Company*  
BARBACANE, THORNTON & COMPANY

Dover, Delaware  
800.355.8210

Media, Pennsylvania  
610.565.5222

INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

202 Bancroft Building  
3411 Silverside Road  
Wilmington, Delaware 19810  
302.478.8940

FAX: 302.478.0133  
www.btcpa.com  
info@btcpa.com

September 18, 2007

The Ingerman Group and the Delaware State Housing Authority  
Capitol Green Housing Corporation  
Dover, Delaware

Compliance

We have audited the compliance of Capitol Green Housing Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The Corporation's major federal program is identified in the accompanying summary of auditors' results section. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Nonprofit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, Capitol Green Housing Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Capitol Green Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Capitol Green Housing Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Capitol Green Housing Corporation's internal control over compliance.

The Ingerman Group and the Delaware State Housing Authority  
Capitol Green Housing Corporation  
Dover, Delaware

A control deficiency in Capitol Green Housing Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Capitol Green Housing Corporation's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Capitol Green Housing Corporation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Capitol Green Housing Corporation's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Capitol Green Housing Corporation as of and for the year ended June 30, 2007 and have issued our report thereon dated September 18, 2007. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the U.S. Department of Housing and Urban Development, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, and Office of Auditor of Accounts; and is not intended to be and should not be used by anyone other than these specified parties.

*Barbacane, Thornton & Company*  
BARBACANE, THORNTON & COMPANY

**SUMMARY OF AUDITORS' RESULTS**

## CAPITOL GREEN HOUSING CORPORATION

### SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Capitol Green Housing Corporation.
2. There were two significant deficiencies relating to the audit of the financial statements reported in the "Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards." Item #07-1 was considered to be a material weakness.
3. There were no instances of noncompliance relating to the financial statements of Capitol Green Housing Corporation disclosed during the audit.
4. There were no material weaknesses relating to the audit of the major federal award program reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award program for Capitol Green Housing Corporation expresses an unqualified opinion.
6. The auditee is considered a low-risk auditee. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
7. The program tested as a major program includes:

<u>Program Name</u>	<u>CFDA#</u>
Section 8 New Construction Program	14.182

# CAPITOL GREEN HOUSING CORPORATION

## SCHEDULE OF FINDINGS AND RECOMMENDATIONS

### PRIOR YEAR FINDINGS AND RECOMMENDATIONS

#### TENANT SECURITY DEPOSITS

##### 06-1 Finding

During our prior year audit, we noted that the security deposit liability exceeded the security deposit cash account by \$1,383. The security deposit cash account must at least equal the liability in order to assure that enough funds are set aside to satisfy this obligation. This condition was a result of management oversight.

##### Recommendation

We recommended that management monitor the security cash and liability accounts to assure that the Corporation has enough funds set aside to satisfy this obligation. We further recommend that management transfer \$1,383 into the security deposit cash account to cover this shortfall.

##### Status

During our current year audit, we noted that the security deposit cash account exceeded the security deposit liability. This finding is no longer applicable.

### CURRENT YEAR FINDINGS AND RECOMMENDATIONS

#### FIXED ASSETS

##### 07-1 Finding

During our current year audit, we noted that management does not maintain a depreciation schedule for fixed assets. The current year depreciation expense recorded by management was an estimate based on last year's actual expense. As a result, an audit adjustment considered to be material to the financial statements had to be posted in order to accurately reflect depreciation expense in the financial statements.

Management should maintain a depreciation schedule for its fixed assets to assure that depreciation expense is accurately presented in its financial statements. This condition was a result of management oversight.

##### Recommendation

We recommended that management maintain a depreciation schedule for its fixed assets.

CAPITOL GREEN HOUSING CORPORATION

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

ESCROWS

07-2 Finding

During our current year audit, we noted that escrow balances reflected in the financial statements did not agree to the amounts confirmed by the Delaware State Housing Authority. As a result, several audit adjustments had to be posted to the financial statements in order to accurately present the escrow balances in the financial statements. This condition was a result of management oversight.

Recommendation

We recommended that management reconcile its escrow balances to the amounts reported by the Delaware State Housing Authority on a monthly basis.



CAPITOL GREEN HOUSING CORPORATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/PASS-THROUGH GRANTOR <u>PROGRAM TITLE</u>	Federal CFDA <u>No.</u>	Disbursements/ <u>Expenditures</u>
<u>U.S. Department of HUD</u>		
Low-Income Housing Assistance Programs - New Construction Program	14.182	\$ <u>599,321</u>
 TOTAL		 \$ <u>599,321</u>